

# Summary of Business Rules for Accounting for and Reporting of Military Equipment

## Classification

### Objective

- Provide guidance to differentiate between assets classified as (1) Inventory Held for Sale, (2) Operating Materials and Supplies, and (3) Military Equipment, to facilitate compliance with the provisions of Statement of Federal Financial Accounting Standards No. 3, *Accounting for Inventory and Related Property*, Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, and Statement of Federal Financial Accounting Standards No. 23, *Elimination of the Category National Defense Property, Plant, and Equipment*.

### Baseline Valuation Methodology

- Inventory Held for Sale and Operating Materials and Supplies – Classify and report assets that meet the criteria established in SFFAS No. 3 as Inventory and OM&S.
- Military Equipment - Capitalize the cost of end items determined using the full cost baseline methodology business rule.

### Mid-Term Methodology

- Inventory Held for Sale and Operating Materials and Supplies - Same as Baseline Valuation Methodology
- Military Equipment - Capitalize all costs incurred to acquire and bring military equipment to a form and location suitable for its intended use.

## **Military Equipment Valuation Project**

### ***Position Paper: Classification***

#### **Description of Issue**

The Department of Defense maintains a large number of assets that could be (historically have been) classified as property, plant, and equipment; inventory held for sale; or operating materials and supplies. This position paper provides criteria for use in properly classifying these assets consistently among Military Departments.

Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, defines inventory and operating materials and supplies as follows:

- Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. The term “held for sale” shall be interpreted to include items for sale or transfer to (1) entities outside the federal government, or (2) other federal entities. “Other federal entities” may include entities within the same organization or agency. Inventory includes inventory held for repair.
- Operating materials and supplies consist of tangible personal property to be consumed in normal operations. Excluded are goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, defines property, plant, and equipment (PP&E) as tangible assets, including land, that meet the following criteria:

- They have an estimated useful life of two years or more;
- They are not intended for sale in the ordinary course of operations; and

- They have been acquired or constructed with the intention of being used, or being available for use by the entity.

Paragraph 23 defines General PP&E as PP&E used in providing goods and services. General PP&E typically has one or more of the following characteristics:

- It could be used for alternative purposes but is used to produce goods or services, or to support the mission of the entity, or
- It is used in business-type activities, or
- It is used by entities in activities whose costs can be compared to those of other entities performing similar activities.

SFFAS No. 10, *Accounting for Internal Use Software*

Paragraph 15 provides that entities should capitalize the cost of software when such software meets the criteria for General PP&E.

Paragraph 16 describes the stage at which the cost of internally developed software should be capitalized.

### **Proposed Policy**

Assets meeting the criteria for inventory held for sale and operating materials and supplies stated above should be accounted for and reported accordingly.

Assets meeting the PP&E criteria should be capitalized. PP&E below the capitalization threshold and not purchased as part of a bulk purchase should be expensed.